

Message Text

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SUBJ: GOG TO FOCUS ON ECONOMIC PROBLEMS

1. SUMMARY - WITH THE SUCCESSFUL CONCLUSION OF ELECTIONS AND THE APPOINTMENT OF A NEW CABINET, THE GREEK GOVERNMENT SHOULD NOW BE READY TO TAKE A MEASURED LOOK AT THE ECONOMIC ILLS THAT BESET THE COUNTRY. THE THREE KEY PROBLEMS TO WHICH SOLUTIONS MUST BE FOUND ARE: (1) REVITALIZATION OF THE ECONOMY, WHICH THIS YEAR HAS STALLED AT A ZERO REAL GROWTH RATE; (2) THE PREVENTION OF A RESURGENCE OF THE INFLATION WHICH PLAGUED THE ECONOMY FROM THE LAST QUARTER OF 1972 INTO THE FIRST QUARTER OF 1974; AND (3) PERENNIAL BALANCE OF PAYMENTS DIFFICULTIES EXACERBATED THIS YEAR BY SOARING OIL PRICES, AND PLUMMETING TOURISM EARNINGS AND EMIGRANT REMITTANCES. END SUMMARY

2. THERE IS IN GREEK AN EXPRESSION "TELIOSANE TA PSEMMATA," WHICH MEANS LITERALLY "THE LIES HAVE STOPPED," BUT WHICH FIGURATIVELY CONVEYS THE SENSE "NOW IS THE TIME FOR ACTION." PERHAPS THERE IS NO BETTER DESCRIPTION OF THE IMPERATIVE FACING THE NEW GREEK GOVERNMENT. AFTER A CAMPAIGN NOTABLE ON THE ECONOMIC SIDE FOR VAGUE RHETORIC AND BLAND PLATITUDES, THE NEW

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GOVERNMENT MUST ADDRESS ITSELF SQUARELY TO THE BASIC ECONOMIC

PROBLEMS WHICH CONFRONT GREECE NOW AND FOR THE FORESEEABLE FUTURE.

3. ECONOMIC GROWTH - THE SINGLE MOST PRESSING ISSUE WILL BE THE REVITALIZATION OF THE ECONOMY. DURING 1963-73, THE ANNUAL REAL GNP GROWTH RATE AVERGATED 8.1 PERCENT AND NEVER DIPPED BELOW 5.5 PERCENT. FOR 1974, AS A RESULT OF THE ANDROUTSOPOULOS GOVERNMENT'S SEVERE ANTI-INFLATION POLICY, THE DISRUPTIVE EFFECT OF THE GENERAL MOBILIZATION ORDERED DURING THE CYPRUS CRISIS, AND THE IMPACT ON THE GREEK ECONOMY OF THE GENERAL DOWNTURN IN THE WESTERN WORLD, REAL GNP WILL REGISTER A ZERO GROWTH RATE. THE INTERIM CARAMANLIS GOVERNMENTS FOCUSED PRIMARILY ON SHORT-RUN MEASURES TO QUICKLY STIMULATE THE ECONOMY. SPECIAL EMPHASIS WAS LAID ON AN EXPANSIONARY MONETARY POLICY. CREDIT RESTRICTIONS ON INVESTMENT AND EVEN CONSUMER BORROWING WERE GREATLY RELAXED. THE MONEY SUPPLY INCREASED 22 PERCENT DURING JUNE-SEPTEMBER DUE TO THE NEAR PANIC DRAWDOWN OF SAVINGS ACCOUNTS AND EMERGENCY MILITARY-RELATED EXPENDITURES BY GOG INCIDENTAL TO THE CYPRUS CRISIS. FROM A LONGER RANGE PRESPECTIVE, SERIOUS STRUCTURAL PROBLEMS, PARTICULARLY THE PREDOMINANCE OF SMALL, FREQUENTLY UNECONOMICAL PRODUCTION UNITS, POST OBSTACLES TO ECONOMIC DEVELOPMENT. THE PROBLEM ALSO RAISES THE QUESTION OF GREECE'S ABILITY TO COMPETE EFFECTIVELY WITH ITS PARTNERS WHEN IT ACHIEVES FULL MEMBERSHIP IN EEC. ONE KEY ELEMENT IN GREECE'S FUTURE GROWTH WILL BE THE NEW GOVERNMENT'S SUCCESS IN ATTRACTING AND CHANNELING INVESTMENT INTO PRODUCTIVE VENTURES.

4. INFLATION - THE NATIONWIDE WHOLESALE PRICE INDEX REGISTERED AN INCREASE OF 44.2 PERCENT IN 1973. THE ANDROUTSOPOULOS GOVERNMENT'S ANTI-INFLATION PROGRAM SUCCEEDED IN BRINGING ABOUT A LEVELING OFF OF PRICES AFTER SIX SUCCESSIVE QUARTERS OF STEADY ACCELERATION. A LOOK AT THE WHOLESALE PRICE INDEX FOR 1974 REVEALS A 9.9 PERCENT INCREASE DURING THE FIRST QUARTER OF 1974 AND A SLIGHT DECLINE OVER THE SECOND AND THIRD. THE GOG APPEARS WILLING TO RISK MODERATE PRICE RISES AS A COST OF REINVIGORATING THE ECONOMY, BUT ECONOMIC DECISION-MAKERS ARE WELL AWARE THAT THE PRESENT EXPANSIONARY POLICY, COUPLED WITH LIQUIDITY INCREASES, EMERGING PRESSURE FROM LABOR FOR HIGHER WAGES, AND RISING IMPORT PRICES, COULD SET STAGE FOR SERIOUS LIMITED OFFICIAL USE

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RESURGENCE OF INFLATION IF NOT WATCHED CAREFULLY.

5. BALANCE OF PAYMENTS-GREECE'S BALANCE OF PAYMENTS DIFFICULTIES HAVE HAD LESS IMPACT ON THE PUBLIC CONSCIOUSNESS THAN GROWTH AND INFLATION IN 1974, BUT AS A LONG-TERM PROBLEM IT IS JUST AS SERIOUS AND HAS HISTORICALLY BEEN MORE PERSISTENT. CAPITAL MOVEMENTS (INCLUDING BORROWINGS) WILL PROBABLY COVER THE CURRENT ACCOUNT DEFICIT AGAIN THIS YEAR, BUT DECISIONS ON

THE FUTURE LEVEL OF GREEK CURRENT ACCOUNT DEFICIT AND ITS FINANCING ARE OVERDUE. GREECE'S BALANCE OF PAYMENTS HAS BEEN FURTHER COMPLICATED BY SOARING OIL PRICES AND A SUBSTANTIAL DECLINE IN INVISIBLE EARNINGS FROM WORKER AND EMIGRANT REMITTANCES AND TOURISM. EVEN SO, THE 1974 CURRENT ACCOUNT DEFICIT IS BEING HELD TO LAST YEAR'S LEVEL (\$1.2 BILLION) PRIMARILY DUE TO: (1) THE EXTREMELY HIGH 1973 DEFICIT (UP 198 PERCENT OVER 1972) RESULTING PARTIALLY FROM HEAVY STOCKPILING; (2) REDUCED GROWTH IN IMPORTS (ONLY 16PERCENT) DUE TO THE GENERAL ECONOMIC DOWNTURN, REINFORCED BY THE ANDROUTSOPOULOS GOVERNMENT'S SLOWDOWN ON IMPORT APPROVALS; (3) INCREASED EXPORTS (45PERCENT); AND (4) AN ENORMOUS INCREASE IN 1974 OF SHIPPING REMITTANCES (UP 55 PERCENT SO FAR) WHICH HAS OFFSET THE DROP IN TOURIST INCOME AND EMIGRANT REMITTANCES IN THE INVISIBLES BALANCE. THE EMBASSY ESTIMATES GREECE'S TOTAL FOREIGN INDEBTEDNESS AT OVER \$4 BILLION BY YEAR'S END. ALTHOUGH THE DEBT SERVICE RATIO IS STILL AT AN ACCEPTABLE LEVEL, HEAVY EURODOLLAR BORROWINGS TO FINANCE RECENT CURRENT ACCOUNT DEFICITS (\$350 MILLION ARRANGED IN 1974 ALONE), TOGETHER WITH OBLIGATIONS ARISING FROM THE GREATLY EXPANDED 1974 OVERSEAS MILITARY PROCUREMENT PROGRAM, IS SURE TO IMPOSE LIMITATIONS ON GREECE'S FLEXIBILITY IN THE FUTURE.

6. INDICATING THE DIRECTION OF ITS ATTACK ON THE BALANCE OF PAYMENTS PROGRAM, THE GOVERNMENT ANNOUNCED ITS INTENTION TO PROMOTE INVESTMENT IN LARGE-SCALE EXPORT AND IMPORT SUBSTITUTION INDUSTRIES. THASSOS OIL WILL ALSO EASE THE BALANCE OF PAYMENTS. ALL THESE PROJECTS, HOWEVER, WILL REQUIRE YEARS TO MATURE. IN ANY EVENT, AT LEAST FOR THE MEDIUM TERM, THE GOVERNMENT MUST DEPEND ON FOREIGN BORROWINGS IN AN INCREASINGLY TIGHT INTERNATIONAL MONEY MARKET. AT THE TIME WHEN THE GOG REQUESTED LARGE-SCALE EEC BALANCE OF PAYMENTS FINANCING, CARAMANLIS STATED THAT HE WOULD PREFER A FREE TRADE POLICY LIMITED OFFICIAL USE

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FOR GREECE, BUT THAT THIS CAN BE MAINTAINED ONLY IF LARGE-SCALE, LOW INTEREST ASSISTANCE IS AVAILABLE.

7. COMMENT: SOLUTIONS TO GREECE'S PROBLEMS MAY BE MUTUALLY EXCLUSIVE. THE GREEK GOVERNMENT'S ECONOMIC DECISION-MAKERS MUST FIND THE REFINED MIXTURE OF POLICIES WHICH WILL ALLOW THEM TO TWIST THE ECONOMY SO GROWTH CAN BE STIMULATED WHILE INFLATION IS RESTRAINED. FOREIGN INVESTMENT MUST BE ATTRACTED TO STIMULATE GROWTH, AND BALANCE OF PAYMENTS SUPPORT OBTAINED FROM MONEY MARKETS INCREASINGLY STRAINED BY COMPETITIVE DEMAND. ALTHOUGH GREECE'S PROBLEMS ARE SERIOUS, FOR THE FIRST TIME SINCE 1967 THE GOVERNMENT CAN CALL ON THE SERVICES OF THE COUNTRY'S MOST TALENTED AND RESPECTED ECONOMISTS. ALSO CARAMANLIS' OVERWHELMING VICTORY AT THE POLLS SHOULD ASSURE BUSINESSMEN AND POTENTIAL INVESTORS OF THE INCREASED

PROBABILITIES FOR A STABLE AND SYMPATHETIC GOVERNMENT FOR
THE NEXT FOUR YEARS. MINISTER OF COORDINATION PAPALIGOURAS
ANNOUNCED THAT PRIME MINISTER CARAMANLIS WOULD OUTLINE HIS
BASIC ECONOMIC POLICY IN HIS ADDRESS TO THE NEW PARLIAMENT
IN TWO WEEKS' TIME. WE SHOULD SEE WHAT APPROACHES THE
GOVERNMENT INTENDS AT THAT TIME.
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